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UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

January 20, 1945

Administrative Bulletin

SUBJECT: REA Loan Policy

Loans may be made by REA pursuant to Sections 4 and 5 of the Rural Electrification Act of 1936, as amended, which sections contain the following provisions:

"Sec. 4. The Administrator is authorized and empowered, from the sums hereinbefore authorized, to make loans to persons, corporations, States, Territories, and subdivisions and agencies thereof, municipalities, peoples utility districts and cooperative, non-profit, or limited-dividend associations organized under the laws of any State or Territory of the United States, for the purpose of financing the construction and operation of generating plants, electric transmission and distribution lines or systems for the furnishing of electric energy to persons in rural areas who are not receiving central station service: Provided, however, That the Administrator, in making such loans, shall give preference to States, Territories, and subdivisions and agencies thereof, municipalities, peoples utility districts, and cooperative, non-profit, or limited dividend associations, the projects of which comply with the requirements of this Act. Such loans shall be on such terms and conditions relating to the expenditure of the moneys loaned and the security therefor as the Administrator shall determine and may be made payable in whole or in part out of income: Provided, however, that all such loans shall be self-liquidating within a period of not to exceed twenty-five years, and shall bear interest at a rate equal to the average rate of interest payable by the United States of America on its obligations, having a maturity of ten or more years after the dates thereof, issued during the last preceding fiscal year in which any such obligations were issued: Provided, further, That no loan for the construction, operation or enlargement of any generating plant shall be made unless the consent of the State authority having jurisdiction in the premises is first obtained. Loans under this section and section 5 shall not be made unless the Administrator finds and certifies that in his judgement the security therefor is reasonably adequate and such loan will be repaid within the time agreed.

"Sec. 5. The Administrator is authorized and empowered, from the sums hereinbefore authorized, to make loans for the purpose of financing the wiring of the premises of persons in rural areas and the acquisition and installation of electrical and plumbing appliances and equipment. Such loans may be made to any of the borrowers of funds loaned under the provisions of Section 4, or to any person, firm, or corporation supplying or installing the said wiring, appliances, or equipment. Such loans shall be for such terms, subject to such conditions, and so secured as reasonably to assure repayment thereof, and shall be at a rate of interest equal to the average rate of interest payable by the United States of America on its obligations, having a maturity of ten or more years after the dates thereof, issued during the last preceding fiscal year in which any such obligations were issued."

Before any allocation of loan funds may be made, an application therefor must be prepared and submitted by the prospective borrower. Applications for loans under Section 4 of the Act shall be transmitted to the agency by the board of directors or other proper group requesting the loan. In connection therewith, the agency may, depending on particular circumstances, require submission of the following:

1. Maps showing proposed electric facilities and prospective consumers;
2. Membership tabulation showing whether prospective consumers have signed applications for membership, paid any membership fee required, or granted an easement for line construction.

Applications for loans under Section 5 of the Act must indicate, among other things, the total amount of loan requested; purposes for which the proposed loan will be used; and the estimated number of consumers to participate in the proceeds of the loan in respect of each such purpose.

All applications for loans, when received by the agency, shall be entered on a register of such applications. Separate registers shall be maintained for applications for loans under Section 4 and Section 5 of the Act. To the extent practicable, applications for loans shall be considered in the order in which received.

All material factors entering into the determination of legality and feasibility of a proposed loan shall be taken into account in considering applications for loans. Illustrative of those factors in respect of applications for loans under Section 4 are the following: total estimated cost of construction; miles of line to be constructed; consumers to be served; estimated annual gross revenue; estimated annual expense; required monthly revenue; operating record, if any; an evaluation of the economics of the area proposed to be served; availability of a satisfactory source of power; record of debt service payments; as to proposed acquisitions, condition and earning record of the properties, estimated cost of rehabilitation, and salvage value of material and equipment to be retired; an engineering study if the proposed loan is to finance in whole or in part one or more generating plants; and similar pertinent information according to the circumstances of each proposed allocation.

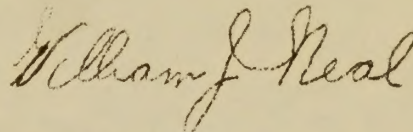
Following examination of applications for loans, allocation of loan funds may be made on the basis thereof provided they meet all requirements of the law. A recommendation to the Administrator for the making of an allocation shall be accompanied by a docket summarizing the pertinent facts to support the conclusion that the security for the loan would be reasonably adequate and such loan would be repaid within the time agreed. Before any loan is made a certificate shall be executed by the Administrator to the effect that he finds and certifies that in his judgement the security for the loan is reasonably adequate and such loan will be repaid within the time agreed. A budget shall be prepared in connection with loans under Section 4 showing the purposes for which funds are allocated. Illustrative of those purposes are the following: construction, engineering fees, meters, transformers, legal fees, legal expenses, final inspection, construction overhead, insurance. In the granting of an allocation of loan funds under Section 4 it may be specified that construction shall be by the self-help method.

Following the allocation of funds for loans, the necessary loan and security documents must be authorized executed, and the pertinent legal requirements complied with before funds may be advanced to the borrower. Illustrative of these documents, not all of which may be required in respect of a particular loan, are loan contracts, notes, various types of bonds, bond resolutions and other pledges of revenue, trust deeds or mortgages and supplements thereto. The terms of repayment of each loan shall be established taking into consideration the requirements of law and the present and prospective financial condition of the borrower.

Funds shall be advanced on account of a loan only in accordance with the established allotment budget and on the basis of a properly executed requisition and voucher. Such funds advanced must be deposited only in a depository approved by the agency. Original receipts or other acceptable evidence of disbursement by borrowers of loan funds for proper purposes shall be submitted to the agency, together with periodic reports showing the status of funds advanced.

Statements of principal and interest balances and amounts due on their various obligations to the agency shall be provided all borrowers.

As an aid to borrowers and to safeguard loans made, the agency shall render them such advice and assistance in connection with proper organization and the design, construction, and operation of electric facilities and related matters as each particular circumstance may justify. Extension of the time of payment of interest or principal of any loans may be granted as provided in Section 12 of the Act. Advance payments on one note may be transferred and applied against other notes of the same borrower held by the Government.

A handwritten signature in cursive script, reading "William J. Neal". The signature is written in dark ink and is positioned above the typed name.

Acting Administrator

of original and interest balance and amount due on their
particular obligations to the agency shall be provided all payments.

and all its payments and its obligations to the agency shall
be for the same and shall be made in accordance with proper
provisions and the design, construction, and operation of electric
facilities and related matters in such particular circumstances may
be determined. Extension of the time of payment of interest or principal of
any loan may be granted as provided in Section 17 of the act. Advances
made on one loan may be transferred and applied against other loans
of the same borrower held by the Government.

W. H. Hall

Acting Administrator